

ORDER NO. 1053

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;
Mark Acton, Vice Chairman;
Nanci E. Langley; and
Robert G. Taub

Periodic Reporting
(Proposals Sixteen through Twenty)

Docket No. RM2012-2

NOTICE OF PROPOSED RULEMAKING ON ANALYTICAL
PRINCIPLES USED IN PERIODIC REPORTING
(PROPOSALS SIXTEEN – TWENTY)
AND RULING DISMISSING MOTION AS MOOT

(Issued December 16, 2011)

On November 30, 2011, the Postal Service filed a petition pursuant to 39 CFR 3050.11 requesting that the Commission initiate an informal rulemaking proceeding to consider changes in the analytical methods approved for use in periodic reporting.¹ On December 9,² and on December 12,³ it filed errata to the attachments to the Petition.

¹ Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposals Sixteen through Twenty), November 30, 2011.

² United States Postal Service Notice of Filing of Errata to Attachments to Petition, December 9, 2011.

³ United States Postal Service Notice of Filing of Errata to Attachments to Petition, December 12, 2011.

On December 7, 2011, GameFly, Inc. moved to strike from the Postal Service's Petition a sentence that references GameFly and the sentence's accompanying footnote, which also references GameFly, on the ground that the references violated certain statutory privacy protections for mailers, and disclosed proprietary information.⁴ On December 13, 2011, the Postal Service filed a response to the GameFly Motion.⁵ In it, the Postal Service denies the substantive allegations made by GameFly, Inc. It also explains that in order to prevent delay in the processing of the original November 30, 2011 Petition, it has refiled that Petition with the material that GameFly objects to voluntarily excised.⁶ Because the Postal Service has voluntarily provided GameFly with the relief that it requests, its Motion will be dismissed as moot.

Proposal Sixteen. Proposed Productivity Measurement for Flats Sequencing System

Proposal Sixteen introduces a new method for measuring the productivity of Flats Sequencing System (FSS) operations based upon the Management Operating Data System (MODS). The resulting productivity measurements would be used in the cost models for flats.

The calculations of avoided cost estimates used in setting discounts for presort mail are based upon engineering models that de-average the mail processing costs of presorted price categories by presort level. Petition at 3. These models diagram mailflows for the various presort price categories, and use productivities (piece handlings per workhour), at the various operations through which the mail flows. It then uses wage rates, piggyback factors, and other inputs to compute avoided costs. *Id.*

⁴ Motion of GameFly, Inc., to Strike Portions of USPS Petition for Rulemaking, Docket No. RM2012-2, filed Dec. 7, 2011 (Motion).

⁵ Response of the United States Postal Service to Motion of GameFly, Inc. to Strike Portions of USPS Petition for Rulemaking, December 13, 2011.

⁶ Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposals Sixteen through Twenty), December 13, 2011.

The Postal Service explains that these models are periodically updated to reflect operational changes, including major equipment deployments such as FSS. *Id.*

Under Proposal Sixteen, the Postal Service develops a productivity measure for flats delivery point sequencing using Total Pieces Handled (TPH) from MODS operation 538 divided by the sum of workhours from MODS operations 530 and 538. The Postal Service states that flats to be sorted into delivery point sequence are initially prepared in operation 530, and then sorted into delivery sequence in operation 538. Since a MODS TPH count is not directly available for the 530 prep operation, the Postal Service proposes to combine hours from that operation with hours from the 538 direct sorting operation, for which a TPH count is available. The TPH count from the 538 sorting operation is divided by hours from both operations to get a combined productivity for the prep and sorting activity. *Id.*

Because the proposed FSS productivity measure for flats sequencing is new, the Postal Service states there are no data to predict the impact of the productivity measure on the calculation of avoided costs. *Id.* at 4.

Proposal Seventeen. Consolidation of MODS Operation Groups Applicable to Letter Automation Productivities

In response to changes in the definition of certain MODS operations, Proposal Seventeen consolidates MODS operation groups associated with the productivity calculations for the DBCS/DIOSS automated letter image reading and sorting operations.

MODS productivities measured by either Total Pieces Fed (TPF) or Total Pieces Handled (TPH) per workhour, are available for a variety of letter, flat, and parcel distribution operations. These productivities are used as inputs to engineering cost models to calculate the costs avoided by worksharing activities for purposes of setting workshare discounts.

During FY 2011, the identification numbers for some MODS operations were discontinued, and the associated work incorporated into other MODS operations.

Id. at 5. Specifically, workload and associated workhours for the Input Subsystem (ISS) were incorporated into the Barcode Sorting (BCS) operation groups. According to the Postal Service, “[a] similar, though smaller, shift also affects Output Subsystem (OSS) operation groups” which, in turn, will be consolidated with BCS operations during FY 2012. *Id.* The cost models will employ the productivity measures from these new consolidated operation groups once the consolidations are completed.

The Postal Service provides a table showing the current disaggregated MODS operations and the proposed aggregations. *Id.* at 6. The Postal Service also provides a table showing the change in productivities upon completion of the consolidations. *Id.*

Proposal Eighteen. Modifications to the Flats Cost Models

Proposal Eighteen makes four modifications to the cost models for flats. Modification One incorporates FSS processing costs into the flats cost models. With deployment of FSS now complete, the Postal Service proposes to use FSS input data in the flats cost models to estimate the costs of FSS operations.

Modification Two corrects “an anomalous” difference in costs between Mixed Area Distribution Center (MADC) automation and Area Distribution Center (ADC) automation flats in First-Class Mail, Periodicals, and Standard Mail. *Id.* at 9-10. Currently, the costs of MADC presorted flats are less than the costs of ADC flats that receive more mailer presorting. According to the Postal Service, this anomaly occurs because single-piece mail is currently included in the downflow densities, which overstates the proportion of MADC mail that flows directly from the Outgoing Primary (OP) operation to the Incoming Secondary (IS) operation. The Postal Service proposes to adjust the downflow densities for flats to mitigate the effect of including single-piece mail using a methodology previously approved by the Commission for use in cost models for letters. *Id.* at 10.

Modification Three corrects an error in the calculation of mechanized ADC pallet bundle sortation in the cost model for Periodicals flats. Currently, cells for the coverage of mechanized ADC pallet bundle sortation are incorrectly referenced to the coverage

for mechanized MADC bundle sortation. The resulting formula errors are corrected by remapping the references to the proportion of broken ADC pallet bundles.

Modification Four calculates the cost for bundles entered on MADC pallets—a newly-created classification. *Id.* at 11. As a new classification, there are no volumes in FY 2011 to estimate costs. The Postal Service proposes to “use ADC pallets entered at the destination ADC as a proxy for MADC pallets.” *Id.*

Proposal Nineteen. Modification of the First-Class Mail Presort Letters Mail Processing Cost Model

Proposal Nineteen modifies the mail processing cost model applicable to First-Class Mail presort letters. Currently, the mail processing cost model only estimates avoided costs for the combined nonautomation machinable Mixed Automated Area Distribution Center (MAADC) and Automated Area Distribution Center (AADC) price categories. The Postal Service proposes to develop separate cost estimates for the nonautomation machinable MAADC and the AADC categories. *Id.* at 12. This proposed methodology change would be consistent with Proposal Twelve, presented in Docket No. RM2012-1, in which the Postal Service disaggregated the cost estimates for nonautomation machinable MAADC and AADC Standard Mail presort letters. *Id.*

Proposal Twenty. Modification of the Business Reply Mail Cost Model

Proposal Twenty modifies the Business Reply Mail (BRM) cost model. The cost model develops the avoided cost estimate in support of the Qualified Business Reply Mail (QBRM) barcode discount, and includes cost studies that support various annual, quarterly, monthly, and per-piece BRM fees. *Id.* at 15. The Postal Service offers Proposal Twenty in response to the Commission's request to initiate a rulemaking proceeding to address the current methodology used to develop the avoided cost estimate for the QBRM discount. *Id.*

The QBRM avoided cost estimate is derived from a methodology proposed by the Postal Service in Docket No. R97-1. Based on that methodology, the Postal Service observes that the avoided cost estimate has decreased over time as the Postal Service has “continued to capture savings as a result of [] technological improvements” in the recognition of handwritten addresses on reply pieces. *Id.* at 18. The mail processing cost of a handwritten reply mailpiece serves as the baseline for comparison to the mail processing costs for a QBRM reply piece to determine the avoided cost estimate. Accordingly, “when all empirical facts are considered,” the Postal Service “proposes the continued use of the Docket No. R97-1 QBRM cost avoidance methodology.” *Id.* at 18-19.

Proposal Twenty also updates and revises the productivity estimates developed in the BRM fee cost studies. In those studies, many of the productivity estimates are based upon proxies rather than direct observation or measurement of actual activities. Moreover, some of the productivity estimates that are based upon field studies are dated. *Id.* at 16.

The Postal Service relies on two studies to develop inputs used in the cost studies. The first is the BRM Practices Study, which was conducted in 2005 and presented in Docket No. R2006-1, USPS LR-L-34. *Id.* at 19. The BRM Practices Study “measure[s] the percentage of mail by price category that is processed using various counting, rating, and billing methods.” *Id.* It is periodically updated. Based upon recent field observations, the Postal Service states that the data inputs from the 2005 BRM Practices Study “should to be relied upon to develop the BRM fee estimates.” *Id.* at 23.

The second study develops productivity data, representing various counting, rating, and billing activities, which have been manually collected at postal field sites. The most recent field study was conducted during the summer of 2011. *Id.* Based upon this study, the Postal Service develops productivity data for the following activities: web Business Reply Mail Accounting System counting, web End of Run counting, machine counting, manual counting, weight averaging counting (letters), weight averaging counting (flats & parcels), PostalOne! billing, and manual billing. *Id.* at 26.

Data from the 2011 Field Study were also used to develop “minutes per day” estimates that support the QBRM quarterly fee and revise the nonletter size BRM monthly fee cost studies.

The Petition, Attachments, and Library References estimating the impact of Proposals Sixteen through Twenty are available for review on the Commission’s website, <http://www.prc.gov>.

Pursuant to 39 U.S.C. 505, Larry Fenster is designated as Public Representative to represent the interests of the general public in this proceeding. Comments are due no later than December 30, 2011.

It is ordered:

1. The Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposals Sixteen through Twenty), filed December 13, 2011, is granted.
2. The Commission establishes Docket No. RM2012-2 to consider the matters raised by the Postal Service’s Petition.
3. Interested persons may submit comments on Proposals Sixteen through Twenty no later than December 30, 2011. Reply comments are due no later than January 9, 2012.
4. Larry Fenster is appointed to serve as the Public Representative to represent the interests of the general public in this proceeding.
5. The Motion of GameFly, Inc., to Strike Portions of USPS Petition for Rulemaking, Docket No. RM2012-2, filed Dec. 7, 2011, is dismissed as moot.

6. The Secretary shall arrange for publication of this Notice in the *Federal Register*.

By the Commission.

Ruth Ann Abrams
Acting Secretary